

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301

Indianapolis, IN 46204

(317) 233-0696

<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 7381

BILL NUMBER: SB 528

NOTE PREPARED: May 5, 2013

BILL AMENDED: Apr 27, 2013

SUBJECT: Gaming.

FIRST AUTHOR: Sen. Boots

FIRST SPONSOR: Rep. Davis

BILL STATUS: Enrolled

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill does the following:

It authorizes the use of limited mobile gaming systems at racetracks, satellite facilities, and in the gaming area of a riverboat or racino.

It allows gaming licensees to deduct adjusted gross receipts (AGR) attributable to free play wagering at any time during the year. It provides that the total amount deducted by a licensee for free play may not exceed \$2.5 M in FY 2013 and \$5 M annually in FY 2014 through FY 2016.

It provides that the lowest bracket of the wagering tax rate schedule for riverboats that had less than \$75 M of AGR during the preceding state fiscal year is 5% instead of 15%. It imposes an additional tax of \$2.5 M if the riverboats taxed under the alternative schedule receive AGR exceeding \$75M in a particular state fiscal year.

It provides that certain local development agreement reports must be made available through the Indiana transparency web site for local government.

It increases the maximum value of a prize that may be won in a toy crane machine or other device played for amusement.

It requires the Gaming Commission to study the use of complimentary promotional credit programs.

It repeals obsolete provisions concerning the riverboat admissions taxes formerly distributed to the Horse

Racing Commission. It makes technical corrections.

Effective Date: Upon passage; July 1, 2013.

Summary of NET state impacts: The estimated impact of the bill on state funds is summarized in the table below:

Entity/Fund	FY 2013	FY 2014	FY 2015
State General Fund	(\$9.24 M)	(\$16.05 M)	(\$17.94 M)
Thoroughbred Breed Fund	\$0	(\$0.13 M)	(\$0.13 M)
Standardbred Breed Fund	\$0	(\$0.17 M)	(\$0.17 M)
Quarterhorse Breed Fund	\$0	(\$0.02 M)	(\$0.02 M)
TOTAL	(\$9.24 M)	(\$16.37 M)	(\$18.26 M)

Explanation of State Expenditures: *Indiana Gaming Commission (IGC):* The bill requires the IGC to conduct a study regarding the use of complimentary promotional credit programs by Indiana racinos and casinos and report its findings to the State Budget Committee before November 1, 2015. The IGC should be able to conduct this study within its current resources.

Explanation of State Revenues: *Promotional Free Play Deduction for Riverboat Casinos and Racinos:* The bill provides an AGR deduction for promotional free play provided by a riverboat casino or racino to patrons. The deduction could be claimed by the casino or racino against AGR at any time during a state fiscal year. The deduction is effective upon passage of the bill. The deduction is capped at \$2.5 M per casino or racino in FY 2013, and is capped at \$5 M per casino or racino in FY 2014, FY 2015, and FY 2016. The deduction reduces the taxable base for the riverboat wagering tax, the racino slot machine wagering tax, and the required set aside of racino AGR for horsemen and other purposes. The estimated impact on state funds from the free play deduction is summarized in the table below.

Tax Type	Fund Type	FY 2013	FY 2014	FY 2015
Riverboat Wagering Tax	State General Fund	(\$6.86 M)	(\$13.11 M)	(\$13.10 M)
Racino Wagering Tax	State General Fund	(\$1.63 M)	(\$2.19 M)	(\$2.19 M)
TOTAL		(\$8.49 M)	(\$15.30 M)	(\$15.29 M)

Based on the range of promotional spending reported by casinos in Pennsylvania and New Jersey, it is assumed that each of the casinos and racinos will claim the maximum \$5 M in AGR deduction annually in FY 2014, FY 2015 and FY 2016. Because the deduction is effective upon passage of the bill, it is estimated that all casinos and racinos will claim the deduction in FY 2013. However, the deductions claimed in FY 2013 are expected to range from \$1 M to the maximum \$2.5 M. Some of the revenue loss from the promotional free play deduction could be offset if the deduction induces additional promotional spending by the casinos and racinos, which in turn increases the aggregate amount of spending by gamblers in the state. A small portion of the wagering tax revenue from the French Lick casino is distributed to Indiana Economic Development Corporation

(IEDC). The revenue loss estimates are based on the Revenue Technical Committee forecast (April 16, 2013) for gaming revenue.

The racinos are also required to pay 15% of their annual slot machine AGR to the following purposes: (1) the Tobacco Master Settlement Fund; (2) the Gaming Integrity Fund; (3) the state Breed Development Funds; (4) private horsemen's associations; and (5) horse racing purses. A portion of the 15% payment that exceeds a specified annual cap is deposited in state General Fund. The promotional free play deduction is estimated to reduce the AGR that is the basis for the 15% payment. The reduction would not affect the payments to the state Gaming Integrity Fund and Tobacco Master Settlement Fund because these payments are fixed dollar amounts. However the reduction would reduce revenue to the other purposes which are percentage distributions, including distributions to the state Breed Development Funds which are administered by the IHRC. The reduction also would impact the distribution to the state General Fund. The impact on state funds is summarized in the table below.

Fund Type	FY 2013	FY 2014	FY 2015
State General Fund	(\$0.75 M)	(\$0.75 M)	(\$0.75 M)
Thoroughbred Breed Fund	\$0	(\$0.13 M)	(\$0.13 M)
Standardbred Breed Fund	\$0	(\$0.17 M)	(\$0.17 M)
Quarter horse Breed Fund	\$0	(\$0.02 M)	(\$0.02 M)
TOTAL	(\$0.75 M)	(\$1.07 M)	(\$1.07 M)

Riverboat Wagering Tax Structure: The bill provides that the lowest bracket of the wagering tax rate schedule for riverboat casinos and racinos is 5% of the first \$25 M of annual AGR (instead of 15%) for riverboat casinos or racinos that had less than \$75 M in annual AGR during the preceding state fiscal year. This change is effective beginning in FY 2014. It is estimated that at least one Indiana casino would fall below that \$75 M AGR threshold and pay the 5% wagering tax rate on the lowest wagering tax bracket. It is estimated that the impact on state and local funds/entities will first occur in FY 2015. The fiscal impact on the state General Fund from the lower tax rate is shown in the table below.

Entity/Fund	FY 2014	FY 2015
State General Fund	\$0 M	(\$1.9 M)

Mobile Gaming Devices at Racinos, Satellite Facilities and Casinos: The bill defines “mobile gaming device” as an electronic device, including software as specified in the bill. The impact on overall wagers is indeterminable.

A racetrack permit holder may use an approved limited mobile gaming system to accept and transmit parimutuel wagers on horse racing at the permit holder’s OTB or simulcast facility located at the permit holder’s racetrack. A person may not transmit a pari-mutuel wager using a mobile gaming device while present in any other location.

The bill allows a riverboat licensee or operating agent or a racino permit holder to use an approved limited

mobile gaming system to accept and transmit wagers on gambling games in the gaming area of a riverboat casino or racino. A person may not transmit a wager using a mobile gaming device while present in any area other than the gaming area.

The provision could simply shift play from the current wagering methods to the mobile gaming devices at the racetracks, racinos and riverboat casinos.

Explanation of Local Expenditures:

Explanation of Local Revenues: *Promotional Free Play Deduction for Riverboat Casino and Racinos:* The deduction reduces the taxable base for the riverboat wagering tax, some of which is distributed to local units, and the 3% county slot machine wagering tax. The estimated revenue loss to local units receiving revenue from these taxes is summarized in the table below.

Local Unit	FY 2013	FY 2014	FY 2015
Lawrenceburg	\$0	(\$0.39 M)	(\$0.39 M)
Switzerland County	\$0	(\$0.31 M)	(\$0.31 M)
Rising Sun	(\$0.09 M)	(\$0.26 M)	(\$0.26 M)
Gary	(\$0.23 M)	(\$0.62 M)	(\$0.62 M)
French Lick	(\$0.03 M)	(\$0.10 M)	(\$0.10 M)
Orange County	(\$0.04 M)	(\$0.12 M)	(\$0.12 M)
Orange Co. Convention & Visitor's Bureau	(\$0.03 M)	(\$0.10 M)	(\$0.10 M)
Orleans	(\$0.02 M)	(\$0.06 M)	(\$0.06 M)
Paoli	(\$0.02 M)	(\$0.06 M)	(\$0.06 M)
West Baden Springs	(\$0.03 M)	(\$0.10 M)	(\$0.10 M)
Madison County	(\$0.08 M)	(\$0.11 M)	(\$0.11 M)
Shelby County	(\$0.08 M)	(\$0.11 M)	(\$0.11 M)
TOTAL	(\$0.65 M)	(\$2.34 M)	(\$2.34 M)

Riverboat Wagering Tax Structure: The provision in the bill lowering the wagering tax rate on the lowest bracket of the wagering tax rate schedule for riverboat casinos and racinos will reduce the distributions to city of Rising Sun by \$0.6 M in FY 2015. The impact in future will depend on whether the AGR generated at the riverboat docked in that city is above or below the \$75 M threshold.

State Agencies Affected: Indiana Gaming Commission, Indiana Horse Racing Commission, Department of State Revenue, Indiana Economic Development Corporation, State Budget Agency, State Budget Committee.

Local Agencies Affected: Local units receiving riverboat wagering tax revenue or county slot machine wagering tax revenue.

Information Sources: Indiana Gaming Commission, Annual Report FY 2011-FY 2012; OFMA, Casino Data; Revenue Technical Committee Forecast (April 16, 2013); Pennsylvania Gaming Control Board, Gaming Revenue Reports, FY 2010-FY 2012; New Jersey Casino Control Commission, Annual Report 2009-2011.

Fiscal Analyst: Randhir Jha, 317- 232-9556.